

SAN DIEGO REGIONAL BUILDING AUTHORITY

A BLENDED COMPONENT UNIT OF
THE COUNTY OF SAN DIEGO

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Regional Building Authority
San Diego, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego Regional Building Authority (Authority), a component unit of the County of San Diego, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the San Diego Regional Building Authority as of June 30, 2012, and the respective changes in financial position thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

For the fiscal year ended June 30, 2012, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued a report December 6, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison of the General Fund on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss, Levy & Hartzheim

Moss, Levy and Hartzheim, LLP
Culver City, California
December 6, 2012

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities
ASSETS	
Pooled cash and investments	\$ 18,007,024
Interest receivable	125,289
Deferred charges	1,769,331
Restricted assets:	
Investments with fiscal agents	11,178,649
Leases receivable	264,320,719
Total assets	295,401,012
LIABILITIES	
Accounts payable	1,572,804
Interest payable	3,011,910
Long-term debt principal outstanding	
Due within one year	5,479,234
Due in more than one year	148,713,597
Total liabilities	158,777,545
NET ASSETS	
Restricted for:	
Creditors-Capital projects	14,654,011
Creditors-Debt service	10,036,869
Unrestricted	111,932,587
Total net assets	\$ 136,623,467

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
General government	\$ 15,230,489				(15,230,489)
Rental income		1,795,202			1,795,202
Repairs and maintenance	1,809,602				(1,809,602)
Interest expense	8,097,618				(8,097,618)
Total governmental activities	\$ 25,137,709	1,795,202			(23,342,507)
General Revenues:					
Investment earnings					211,290
Total general revenue					211,290
Change in net assets					(23,131,217)
Net assets at beginning of year					159,754,684
Net assets at end of year					\$ 136,623,467

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2012

	General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
ASSETS				
Pooled cash and investments	\$ 35,353	1,761,114	16,210,557	18,007,024
Interest receivable	15	110,616	14,658	125,289
Restricted assets:				
Investments with fiscal agents		11,178,649		11,178,649
Leases receivable		264,320,719		264,320,719
Total assets	35,368	277,371,098	16,225,215	293,631,681
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable		1,600	1,571,204	1,572,804
Deferred revenue		264,320,719		264,320,719
Total liabilities		264,322,319	1,571,204	265,893,523
FUND BALANCES				
Restricted for:				
Creditors-Capital projects			14,654,011	14,654,011
Creditors-Debt service		13,048,779		13,048,779
Unassigned	35,368			35,368
Total fund balances	35,368	13,048,779	14,654,011	27,738,158
Total liabilities and fund balances	\$ 35,368	277,371,098	16,225,215	\$ 293,631,681

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances - governmental funds.	\$ 27,738,158
Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.	(156,875,000)
Bond and certificates of participation costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balances because current financial resources have been used. In the government-wide statements however, bond and certificates of participation issuance costs are reported as a deferred charge and amortized over the life of the bond and certificate of participation issue.	1,769,331
Deferred amounts on refunding, net of accumulated amortization, are not reported in the governmental funds.	4,911,012
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	264,320,719
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.	(3,011,910)
Certificates of participation and bond premiums are recognized as other financing sources in governmental funds in the year of sale. In the government-wide statements, the premiums are amortized as interest over the life of the corresponding certificates of participation and bonds.	(2,228,843)
Net assets of governmental activities	\$ 136,623,467

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
Revenues:				
Investment earnings	\$ 84	184,251	26,955	211,290
Rental income	1,809,602	11,150,049		12,959,651
Total revenues	1,809,686	11,334,300	26,955	13,170,941
Expenditures:				
Repairs and maintenance	1,809,602			1,809,602
Contracted services			15,096,316	15,096,316
Administrative		17,651		17,651
Debt service:				
Principal		5,720,000		5,720,000
Interest		7,692,945		7,692,945
Total expenditures	1,809,602	13,430,596	15,096,316	30,336,514
Net change in fund balances	84	(2,096,296)	(15,069,361)	(17,165,573)
Fund balances at beginning of year	35,284	15,145,075	29,723,372	44,903,731
Fund balances at end of year	\$ 35,368	13,048,779	14,654,011	27,738,158

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Net change in fund balances - total governmental funds	\$ (17,165,573)
Repayments of bond and certificates of participation principal are reported as an expenditure in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Authority's long-term debt was reduced by the amount of principal payments made to bond and certificates of participation holders.	5,720,000
Leases receivable reported in the governmental funds, offset by deferred revenue, are not available to pay current expenditures. Likewise, when leases are collected, they are reflected as revenue. This is the change to leases receivable during the fiscal year.	(11,164,449)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(521,195)
Change in net assets - governmental activities	\$ (23,131,217)

NOTE 1

Summary of Significant Accounting Policies

The accounting policies of the San Diego Regional Building Authority (the "Authority") conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The following is a summary of the more significant policies.

The Reporting Entity

The Authority, created under a Joint Powers Agreement between the County of San Diego (the "County") and the San Diego Metropolitan Transit Development Board ("MTDB"), dated August 27, 1987, is a separate entity constituting a public instrumentality of the State of California. As of 2003, the MTDB is renamed the San Diego Metropolitan Transit System ("MTS"). The Authority is an independent legal entity governed by a commission of three members who receive no compensation. Per the Joint Powers Authority, one of the three members is appointed by the "MTS", a second member is the County Supervisor who sits on the Trolley Board, and the third member is the County Supervisor who sits on the MTS Board.

The Authority was originally formed to develop, construct, and contract for the operation of a ten-story office complex containing approximately 180,000 square feet which is situated over a light rail trolley transfer station which includes a parking garage and a freestanding clock tower. This facility is located within the City of San Diego.

In addition, the Authority entered into an agreement with the San Miguel Consolidated Fire Protection District during fiscal year 1991 to finance the design, acquisition, and construction of a fire station. The construction was completed in December 1991.

In fiscal year 2009, the Authority issued the San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex project) Series 2009A to finance the acquisition, construction and improvement of County facilities, including facilities to be used as an operations center by the County of San Diego. The overall development of the project is referred to as the "COC Project".

Principal and Interest payments on these bonds are secured by base rental payments to be made by the County pursuant to the Facility Lease dated February 1, 2009 by and between the Authority and the County.

Financial Reporting Structure

Basic Financial Statements

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement 34, "Basic Financial

Statements - and Management's Discussion and Analysis - for State and Local Governments", was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the Authority and the change in aggregate financial position resulting from the activities of the fiscal period.

In the statement of net assets, the governmental activities are presented on a consolidated basis and are reflected on a full accrual, economic resource basis, which incorporates long-term debt. The net assets of the Authority are categorized as restricted and unrestricted.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Authority's functions and demonstrates the degree to which the direct expenses of a given function is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues for the Authority consist of rental income. Other items not properly included among program revenues are reported as general revenues; which for the Authority, consists of investment earnings.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements and are presented on a current financial resources and modified accrual basis of accounting.

GASB Statement No. 34 requires that the Authority's major governmental type funds to be identified and presented separately in the fund financial statements. Major funds are defined as funds that have assets, liabilities, revenues, or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total.

The Authority reported the following major governmental funds in the accompanying financial statements:

General Fund - This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund is the Authority's operating fund.

Debt Service Fund - The Debt Service Fund was established to pay maturing principal and interest on the Refunding Lease Revenue Bonds and the Certificates of Participation. The lease payments received from the lessees for each project are used to pay the debt service.

Special Revenue Fund - The Special Revenue Fund was established to account for the proceeds of the 2009 Series A issuance which will fund the construction and development of the COC Project. Even though the fund incurs expenditures to

fund project activities, these expenditures recorded in this fund do not result in assets being capitalized on the statement of net assets of the Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are susceptible to accrual when measurable and available. Investment earnings and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For government-wide (governmental) activities, the Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental users.

When both *restricted and unrestricted resources* are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Fund Balance

Cash and Investments

Investments are reported at fair value which is determined using various methods. Short-term investments are reported at cost, which approximates fair value. Investments in government obligations are valued on over-the-counter bid quotations available at fiscal year-end. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

Leased Property

The Authority has entered into direct financing leases of property with the County, MTS and the San Miguel Consolidated Fire Protection District. Capitalized lease receivables are shown as restricted assets on the government-wide statement of net assets and the governmental funds balance sheet. Revenue from these financing leases is reported in the applicable government-wide statement of activities and governmental funds statements of revenues, expenditures, and changes in fund balances.

Deferred Charges

Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the government-wide financial statements, deferred charges are reported as assets in the governmental activities.

Deferred Revenue

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. Revenue must also be susceptible to accrual, it must be both measurable and available to finance expenditures of the current fiscal period. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred revenue. This type of deferred revenue is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is used only in connection with governmental funds.

Long-Term Obligations

General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. Long-term liabilities reported in the statement of net assets include the amount due in one year (current) and the amount due in more than one year (noncurrent).

Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). Occasionally, the Authority also refunds some of its existing debt. When this occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding and is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and any applicable deferred amount on refunding. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

General Budget Policies

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP). Each fiscal year, the Authority's board adopts an operating budget for the General Fund on the modified accrual basis and in a manner consistent with USGAAP. Annual budgets are not required to be adopted for the Authority's Special Revenue Fund.

Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the Authority funds can be spent. These classifications include: nonspendable; restricted; and the unrestricted classifications of committed, assigned and unassigned. When both restricted and unrestricted resources are available for use, fund balance is generally depleted by restricted first, followed by unrestricted resources in the following order: committed, assigned and unassigned.

The fund balance classifications are defined as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (the Board of Commissioners of the San Diego Regional Building Authority). Those committed amounts cannot be used for any other purpose unless the Authority removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned fund balance - amounts that are constrained by the Authority's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the highest level of decision making authority (the Board of Commissioners of the San Diego Regional Building Authority), or by a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In the Authority, the intent is generally expressed by the Board of Commissioners.

Unassigned fund balance - the residual classification that may only be used by the General Fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Authority does not have nonspendable, committed, or assigned fund balances at June 30, 2012.

Net Assets

In the government-wide financial statements, net assets are reported in two categories: restricted net assets and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the Authority (such as creditors, grantors, contributors, laws, and regulations of other governments).

Unrestricted net assets consist of net assets that do not meet the definition of restricted net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2

Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under debt covenants. For fiscal year 2012, the Authority had \$275,499,368 in restricted assets: \$11,178,649 in investments held with the trustee bank; and, \$264,320,719 in leases receivable from the County, MTS and the San Miguel Consolidated Fire Protection District for the financing leases of property.

NOTE 3

Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Net Assets

Explanations of certain differences between the governmental funds balance sheet and the government-wide statement of net assets are detailed below:

Table 1	
Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation	
At June 30, 2012	
Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.	
2011 Certificates of Participation	\$ (17,265,000)
2003 Refunding Lease Revenue Bonds	(5,855,000)
2009 Lease Revenue Bonds	(133,755,000)
	<u>\$ (156,875,000)</u>
Deferred charges include bond and certificates of participation costs of issuance. Costs of issuances are reported as expenditures in governmental funds and thus will have the effect of reducing fund balances because current financial resources have been used. In the government-wide statements, issuance costs are reported as deferred charges and amortized over the life of the issue. Deferred amounts on refunding, net of accumulated amortization, are not reported in the governmental funds. These deferred charges and deferred amounts on refunding, net of accumulated amortization, are as follows:	
Deferred charges:	
2011 Certificates of Participation	\$ 301,093
2003 Refunding Lease Revenue Bonds	147,415
2009 Lease Revenue Bonds	1,320,823
	<u>\$ 1,769,331</u>
Deferred amounts on refunding, net of accumulated amortization, are not reported in the governmental funds:	
2011 Certificates of Participation	\$ 4,156,630
2003 Refunding Lease Revenue Bonds	754,382
	<u>\$ 4,911,012</u>
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	
Deferred Revenues:	
2011 Certificates of Participation	\$ 20,166,200
2003 Refunding Lease Revenue Bonds	7,117,225
2009 Lease Revenue Bonds	237,037,294
	<u>\$ 264,320,719</u>
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.	
Interest payable:	
2011 Certificates of Participation	\$ (107,650)
2003 Refunding Lease Revenue Bonds	(132,763)
2009 Lease Revenue Bonds	(2,771,497)
	<u>\$ (3,011,910)</u>
Certificates of participation premium and bond premiums are recognized as other financing sources in governmental funds in the year of sale. In the government-wide statements, the premiums are amortized as interest over the life of the corresponding certificates of participation and bonds	
Premiums:	
2011 Certificates of Participation	\$ (1,067,095)
2003 Refunding Lease Revenue Bonds	(132,084)
2009 Lease Revenue Bonds	(1,029,664)
	<u>\$ (2,228,843)</u>

Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Explanations of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are detailed below:

Table 2

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation For the Year Ended June 30, 2012

Repayments of bond and certificates of participation principal are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Authority's long-term debt was reduced by the amount of principal payments made to bond and certificates of participation holders.

2011 Certificates of Participation	\$ 1,995,000
2009 Lease Revenue Bonds	3,130,000
2003 Refunding Lease Revenue Bonds	595,000
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$ 5,720,000

Leases receivable reported in the governmental funds, offset by deferred revenue, are not available to pay current expenditures. Likewise, when the leases are collected, they are reflected as revenue. This is the change to leases receivable during the fiscal year.

2011 Certificates of Participation	\$ (2,647,176)
2009 Lease Revenue Bonds	(7,626,998)
2003 Refunding Lease Revenue Bonds	(890,275)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$ (11,164,449)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this \$(521,195) difference are as follows:

Accrued interest	
2011 Certificates of Participation	\$ 2,092
2009 Lease Revenue Bonds	39,125
2003 Refunding Lease Revenue Bonds	14,875
	\$ 56,092
Amortization of premium	
2011 Certificates of Participation	\$ 145,513
2009 Lease Revenue Bonds	43,507
2003 Refunding Lease Revenue Bonds	17,612
	\$ 206,632
Amortization of deferred amount on refunding	
2011 Certificates of Participation	\$ (566,813)
2003 Refunding Lease Revenue Bonds	(100,584)
	\$ (667,397)
Amortization of issuance costs	
2011 Certificates of Participation	\$ (41,058)
2009 Lease Revenue Bonds	(55,809)
2003 Refunding Lease Revenue Bonds	(19,655)
	\$ (116,522)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$ (521,195)

NOTE 4

Pooled Cash and Investments

The Authority's cash and cash equivalents totaling \$18,007,024 are reported on the balance sheet and statement of net assets as "Pooled Cash and Investments". The County maintains a cash and investment pool that is available for use by all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated quarterly based on the average daily cash balances of the participating funds. It is adjusted to reflect fair value per GASB Statement No. 31.

Further disclosures regarding the County's cash and investment pool and investment policy are included in the notes to the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

NOTE 5

Investments with Fiscal Agents

The Authority has funds totaling \$11,178,649 held by a trustee/fiscal agent to be used for the payment or security of certain bonds. California Government Code Section 53601 provides these funds, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make.

These ordinances, resolutions, and indentures are generally more restrictive than the Authority's general investment policy. In no instance have additional types of investments, not permitted by the Authority's general investment policy, been authorized.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by debt trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. Table 3 identifies the investment types that are authorized for investments held by debt trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Table 3			
Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	None	None	None
Local Agency Obligations	None	None	None
Bankers Acceptance	1 year	None	None
Commercial Paper, Prime Quality	270 days	None	None
Medium Term Notes	5 years	30%	None
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreement	1 year	None	None
Reverse Repurchase Agreement	92 days	20%	None
Investment Agreement	None	None	None
Money Market Fund	N/A	None	None
Local Agency Investment Fund (State Pool)	N/A	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Mortgage-Backed Securities	5 year	20%	None
Collateralized Mortgage Obligation	5 years	20%	None
San Diego County Pooled Investment Fund	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Table 4							
Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months or Less	13 to 24 Months	25 to 36 Months	37-48 Months	49-60 Months	More than 60 Months
Held by Trustee							
U.S. Treasury Money Market	\$ 1,026,238	\$ 1,026,238	\$		\$		\$
U.S. Government Agencies	10,152,410		10,152,410				
Money Market Fund	1	1					
	\$ 11,178,649	\$ 1,026,239	\$ 10,152,410	\$	\$	\$	\$

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Authority's investments (including investments held by trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The Authority does not hold any specific investments that need to be reported here.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below in Table 5 is the minimum rating (where applicable) required by the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Table 5					
Investment Type	Amount	Minimum Legal Rating	Ratings as of Fiscal Year End		
			Moody's	Fitch	S&P's
Held by Trustee					
U.S. Treasury Money Market					
First American Treasury Obligations Fund	\$ 1,026,238	N/A	Aaa-mf	AAAmmf	AAAm
U.S. Treasury Money Market Total	1,026,238				
U.S. Government Agencies					
Federal National Mortgage Association-FNMA	10,152,410	N/A	Aaa	AAA	AA+
U.S. Government Agencies Total	10,152,410				
Money Market Fund					
AIM1 Trust Treasury Portfolio	1	AAAm	Aaa-mf	AAAmmf	AAAm
Money Market Fund Total	1				
	\$ 11,178,649				

Concentration of Credit Risk Investments

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. No general policies have been established to limit the amount of exposure to any one single issuer, however, monies held by trustees on behalf of the Authority may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the Authority's investments with fiscal agents by individual major funds at June 30, 2012 are shown in Table 6.

Table 6		
Concentration of Credit Risk		
Issuer	Debt Service Fund	Percent
AIM Trust Treasury Portfolio	\$ 1	
Federal National Mortgage Association-FNMA	10,152,410	91
First American Treasury Obligations Fund	1,026,238	9

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2012, the Authority has all of its deposits pooled with the County. As of June 30, 2012, the Authority investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities:

Table 7	
Investment Type	Totals
U.S. Treasury Money Market	\$ 1,026,238
U.S. Government Agencies	10,152,410
Money Market Fund	1
	\$ 11,178,649

NOTE 6

Changes in Long-Term Debt

Long-term liability activities for the year ended June 30, 2012 were as follows:

Table 8					
Changes in Long-Term Liabilities					
	Beginning Balance at July 1, 2011	Additions	Reductions	Ending Balance at June 30, 2012	Amounts Due Within One Year
2003 Refunding Lease Revenue Bonds	\$ 6,450,000		595,000	5,855,000	\$ 625,000
2009 Lease Revenue Bonds	136,885,000		3,130,000	133,755,000	3,225,000
2011 Certificates of Participation	19,260,000		1,995,000	17,265,000	2,090,000
Total long-term debt principal outstanding	162,595,000		5,720,000	156,875,000	5,940,000
Unamortized issuance premiums	2,435,475		206,632	2,228,843	206,632
Unamortized deferred amounts on refunding	(5,578,409)		(667,397)	(4,911,012)	(667,398)
Total	\$ 159,452,066		5,259,235	154,192,831	\$ 5,479,234

Note 7

Long-Term Debt

Metropolitan Transit (MTS) Towers Project 2011 Certificates of Participation

On May 3, 2011, the San Diego Regional Building Authority (SDRBA) issued \$19.260 million of fixed rate serial Certificates of Participation titled, 2011 MTS Tower Refunding (the "Certificates"). These certificates have maturity dates beginning on November 1, 2011 with a final maturity of November 1, 2019. Each maturity date carries a different fixed interest rate beginning in November 2011 at a fixed rate of 1 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of \$1.237 million. The \$20.497 million in proceeds of the Certificates along with \$3.437 million of funds held by the 2001 MTS Refunding trustee (trustee) were distributed as follows: 1) \$22.211 million (consisting of \$18.774 million of new Certificate proceeds plus \$3.437 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire \$22.115 million

Foreign Currency Risk

This is the risk that investments are exposed to foreign currency risk.

The Authority's investments do not have any foreign currency risk as all investments are in U.S. dollar-denominated assets.

2001 Metropolitan Transit System Towers Refunding Certificates of Participation outstanding and to pay future interest payments; 2) \$1.359 million to fund a Certificate reserve fund; 3) \$364 thousand was set aside to pay certain costs of issuance.

The \$22.211 million transfer referred to above was placed in an irrevocable trust with an escrow agent to provide for the payment of the remaining principal and interest due on the 2001 MTS COPs. As a result, the 2001 MTS COPs are considered legally defeased and the liability for those certificates has been removed from the government-wide statement of net assets governmental activities' liabilities due within one year and due in more than one year.

This advance refunding will result in reducing the County's principal and interest payments by \$2.754 million over the next 9 years to obtain an economic gain of \$2.142 million (i.e. difference between the present values of the debt service payments on the refunded debt and the refunding debt). The interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes.

As of June 30, 2012 the outstanding balance was \$17,265,000.

The future minimum debt service requirements for the MTS COPs are as follows:

Table 9				
Metropolitan Transit System (MTS) Towers Project 2011 Certificates of Participation Debt Service Requirements to Maturity				
Fiscal Year Ended June 30	Principal	Interest	Total	
2013	\$ 2,090,000	625,000	\$	2,715,000
2014	2,085,000	583,250		2,668,250
2015	2,200,000	518,400		2,718,400
2016	2,220,000	430,000		2,650,000
2017	2,340,000	338,800		2,678,800
2018-2020	6,330,000	405,750		6,735,750
Subtotal	\$ 17,265,000	2,901,200	\$	20,166,200
Add:				
Unamortized issuance premium	1,067,095			
Less:				
Unamortized deferred amounts on refundings	(4,156,630)			
Total	\$ 14,175,465			

San Miguel Consolidated Fire Protection District

On October 7, 2003, the Authority issued \$10,005,000 of Refunding Lease Revenue Bonds, Series 2003 pursuant to a trust agreement between trustee (U.S. Bank National Association) to advance refund \$13,095,000 of 1993A Refunding Lease Revenue Bonds issued on September 1, 1993. The gross proceeds of \$10,291,189 include the par amount of \$10,005,000 and a reoffering premium of \$286,189. This amount plus the prior debt service reserve fund of \$946,848 and San Miguel Fire Protection District contribution of \$500,000 were used as follows: \$10,511,720 was deposited into a trust with an escrow agent to provide for all future debt service payments on the 1993A Certificates of Participation, \$893,775 was deposited to a debt service reserve fund, and \$332,542 was used to pay costs of issuance, underwriter's discount, and bond insurance. As a result, the 1993A Refunding Lease Revenue Bonds are considered to be defeased and the liability for that debt has been removed.

The 2003 Refunding Lease Revenue Bonds (Revenue Bonds) pay various interest rates ranging from 2.00% to 4.50%. Interest represented by the Revenue Bonds is payable on July 1 and January 1 of each year commencing on July 1, 2004. The Revenue Bonds mature on various dates beginning on January 1, 2005, with a final maturity date of January 1, 2020.

As of June 30, 2012 the outstanding balance was \$5,855,000.

The future minimum debt service requirements for the Revenue Bonds are as follows:

Table 10				
San Miguel Consolidated Fire Protection District (SM) 2003 Refunding Lease Revenue Bonds Debt Service Requirements to Maturity				
Fiscal Year Ended June 30	Principal	Interest	Total	
2013	\$ 625,000	265,525	\$	890,525
2014	655,000	234,275		889,275
2015	680,000	206,438		886,438
2016	715,000	177,537		892,537
2017	740,000	147,150		887,150
2018-2020	2,440,000	231,300		2,671,300
Subtotal	\$ 5,855,000	1,262,225	\$	7,117,225
Add:				
Unamortized issuance premium	132,084			
Less:				
Unamortized deferred amounts on refundings	(754,382)			
Total	\$ 5,232,702			

San Diego Regional Building Authority Lease Revenue Bonds - County Operations Center and Annex Project

In February 2009, the Authority issued \$136,885,000 of fixed rate serial and term lease revenue bonds titled, "County Operations Center and Annex Project Series 2009 A" (the "Bonds"). These Bonds consist of \$87,350,000 Serial Series 2009 A Bonds issued at fixed interest rates ranging from 3.00% to 5.50% with maturity dates ranging from February 1, 2012 through February 1, 2030 and \$49,535,000 Term Bonds issued at a fixed rate of 5.38% with a maturity date of February 1, 2036.

These Bonds were issued with a premium of \$1,174,687 million. Bond proceeds of \$138,059,687 along with County contributions of \$66,242,947 were distributed as follows: 1) \$178,400,729 to finance the acquisition, construction and improvement of certain County facilities, including facilities to be used as an operation center located in the Kearny Mesa community of San Diego County; 2) \$14,491,709 to fund capitalized interest to pay interest during the construction period; 3) \$9,878,906 to fund a Reserve Fund; 4) and \$1,506,854 to pay certain costs of issuance incurred in connection with these bonds; and \$24,475 was set aside to be used for various ongoing debt related costs.

As of June 30, 2012 the outstanding balance was \$133,755,000.

The future minimum debt service requirements for the Revenue Bonds are as follows:

Table 11				
County Operations Center and Annex Project (COC)				
2009 Lease Revenue Bonds				
Debt Service Requirements to Maturity				
Fiscal Year Ended June 30	Principal	Interest	Total	
2013	\$ 3,225,000	6,651,594	\$	9,876,594
2014	3,320,000	6,554,844		9,874,844
2015	3,430,000	6,446,944		9,876,944
2016	3,565,000	6,309,744		9,874,744
2017	3,710,000	6,167,144		9,877,144
2018-2022	20,995,000	28,391,444		49,386,444
2023-2027	26,510,000	22,869,156		49,379,156
2028-2032	34,280,000	15,103,644		49,383,644
2033-2036	34,720,000	4,787,780		39,507,780
Subtotal	\$ 133,755,000	103,282,294	\$	237,037,294
Add:				
Unamortized issuance premium	1,029,664			
Total	\$ 134,784,664			

NOTE 8

Future Lease Income

Direct Financing Leases

MTS Towers- Project

The Authority has entered into a direct financing lease of the land and building with the County. This lease is disclosed as long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego. Upon final payment of principal and interest on the 2011 MTS COPs, the building will be transferred to MTS. Similarly, upon final payment of principal and interest on the 2011 MTS COPs, 78.04% of the parking structure will transfer to the County of San Diego and 21.96% will transfer to MTS.

It is the obligation of the County to make the full lease payments to the Authority. However, the County subleases a portion of the building to MTS. The County's share of the lease payment is 72.39%, and MTS's portion is 27.61%. The lease payments received will be used to pay the debt service on the MTS COPs.

The total future minimum lease payments to be received are as follows:

Table 12				
Metropolitan Transit System (MTS) Towers Project 2011 Certificates of Participation Minimum Lease Payments				
Fiscal Year Ended June 30	County of San Diego	MTS	Total	
2013	\$ 1,965,388	749,612	\$ 2,715,000	
2014	1,931,546	736,704	2,668,250	
2015	1,967,850	750,550	2,718,400	
2016	1,918,335	731,665	2,650,000	
2017	1,939,183	739,617	2,678,800	
2018-2020	4,876,009	1,859,741	6,735,750	
Total minimum lease payments receivable	\$ 14,598,311	5,567,889	\$ 20,166,200	

San Miguel Consolidated Fire Protection District

On October 1, 2003, the direct financing lease between the Authority and the San Miguel Consolidated Fire Protection District for the construction of the fire station was amended and restated relating to the \$10,005,000 Refunding Lease Revenue Bonds, Series 2003. The lease payments to be received will be used to pay the debt service on the Lease Revenue Bonds, Series 2003. The lease expires on January 1, 2020. This lease is disclosed as long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego.

The total future minimum lease payments to be received are as follows:

Table 13		
San Miguel Consolidated Fire Protection District (SM) 2003 Refunding Lease Revenue Bonds Minimum Lease Payments		
Fiscal Year Ended June 30	Amount	
2013	\$	890,525
2014		889,275
2015		886,438
2016		892,537
2017		887,150
2018-2020		2,671,300
Total minimum lease payments receivable	\$	7,117,225

County Operations Center and Annex Project

The Authority has entered into a direct financing lease of land and building with the County. Pursuant to the "Facility Lease", the County will sublease from the Authority the "Leased Property" which consists of the "Real Property"- 37.2 acres of land - and the "2009 Project"- a central plant, two 150,000 square-foot office buildings, a seven level parking structure and related improvements. The land and building are included in the County's Basic Financial Statements. This lease is disclosed as

long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego.

It is the obligation of the County to make the full lease payments to the Authority. The lease payments received will be used to pay the debt service on the Lease Revenue Bonds.

The total future minimum lease payments to be received are as follows:

Table 14		
County Operations Center and Annex Project (COC) 2009 Lease Revenue Bonds		
Minimum Lease Payments		
Fiscal Year Ended June 30		Total
2013	\$	9,876,594
2014		9,874,844
2015		9,876,944
2016		9,874,744
2017		9,877,144
2018-2022		49,386,444
2023-2027		49,379,156
2028-2032		49,383,644
2033-2036		39,507,780
Total minimum lease payments receivable	\$	237,037,294

Operating Leases

County Operations Center and Annex Project

On February 1, 2009, a Site Lease was executed between the Authority (Lessee) and the County (Lessor), for the "Real Property"- that portion of land upon which the 2009 Project is constructed. The term of the lease is 28 years and expires simultaneously with the Facility lease. The lease does not meet the criteria for capitalization under Financial Accounting Standards Board (FASB) Statement No. 13, and is, therefore, accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and, therefore, the result of this lease agreement is not reflected in the Authority's statements.

Upon the execution and delivery of the Facility lease on February 1, 2009, the Authority paid to the County an advance rent of \$1 which constituted full payment over the term of the lease.

MTS Towers Project

On November 1, 1987, a Ground Lease was executed between the Authority (lessee) and MTDB (lessor), for that portion of land upon which the office structure was constructed. The term of the lease is 99 years; however, the tenant has the option to terminate the lease on November 1, 2042, and each tenth

anniversary thereafter. The lease does not meet the criteria for capitalization under Financial Accounting Standards Board (FASB) Statement No. 13, and is, therefore, accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and, therefore, the result of this lease agreement is not reflected in the Authority's statements.

Per an amendment to the Ground Lease, dated May 1, 2011, the minimum rent was adjusted to \$1 per fiscal year until the Certificates of Participation (COP) issued on May 3, 2011 and any additional Certificates, as defined in the Certificate Trust Agreement, remain outstanding. The May 3, 2011 COPs are currently scheduled to be paid off by November 1, 2019.

Commencing on November 1 when the last outstanding COPs are paid in full (November 1, 2019), the Authority shall pay monthly minimum lease payments of \$32,164, adjusted on November 1, 2012 and November 1, 2017 (CPI Adjustment Date) by multiplying the rate of such minimum rent in effect immediately prior to the CPI Adjustment Date by a fraction, the numerator of which shall be the most recent Index available as of the CPI Adjustment Date, and the denominator of which shall be the most recent Index available as of November 1, 2007, for the November 1, 2012 CPI Adjustment Date and November 1, 2012, for the November 1, 2017 CPI Adjustment Date. On November 1, 2019, the minimum rent shall be adjusted to eight percent (8%) of seventy percent (70%) of the fair market value of the premises, as mutually agreed upon by the MTDB and the Authority.

Future minimum rental payments, exclusive of Consumer Price Index adjustments and renewal of the lease on November 1, 2042, are as follows:

Table 15		
Metropolitan Transit System (MTS) Towers Project		
2011 Certificates of Participation		
Minimum Operating Lease Payments		
Fiscal Year Ended June 30		Total
2013	\$	1
2014		1
2015		1
2016		1
2017		1
2018-2022		1,029,249
2023-2027		1,929,840
2028-2032		1,929,840
2033-2037		1,929,840
2038-2042		1,929,840
2043		128,656
Total minimum payment required	\$	8,877,270

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES- BUDGET AND ACTUAL GENERAL FUND			
For the Year Ended June 30, 2012			
	Original Budget	Final Budget	Actual
Revenues:			
Investment earnings	\$		84
Rental income	1,765,667	1,765,667	1,809,602
Total revenues	1,765,667	1,765,667	1,809,686
Expenditures:			
Repairs and maintenance	1,765,667	1,765,667	1,809,602
Total expenditures	1,765,667	1,765,667	1,809,602
Net change in fund balances			84
Fund balances at beginning of year	35,284	35,284	35,284
Fund balances at end of year	\$ 35,284	35,284	35,368

Note to Required Supplementary Information - Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year by the Commission of the San Diego Regional Building Authority for the General Fund. Annual budgets are not required to be adopted for the Debt Service and Special Revenue funds.

The schedule of revenues, expenditures, and changes in fund balance - budget and actual for the General Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles (GAAP).

The Original Budget consists of the adopted budget. The Final Budget includes the Original Budget plus amended budget changes occurring during the fiscal year.

The Actual column represents the actual amounts of revenue and expenditures reported on the GAAP basis which is the same basis that is used to present the aforementioned original and final budget.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
San Diego Regional Building Authority
San Diego, California

We have audited the financial statements of the governmental activities and each major fund of the San Diego Regional Building Authority (Authority), a component unit of the County of San Diego, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority's Board of Directors, management, the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 6, 2012